

# FDIC State Profile

Winter 2004

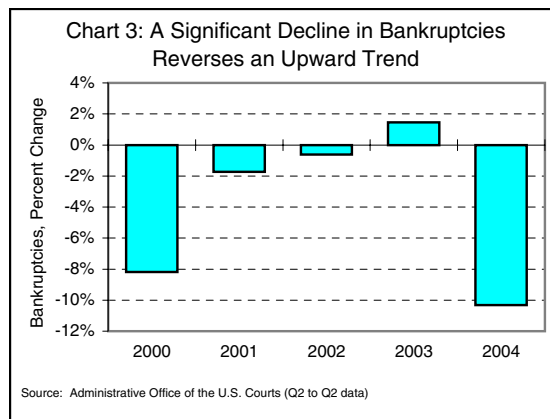
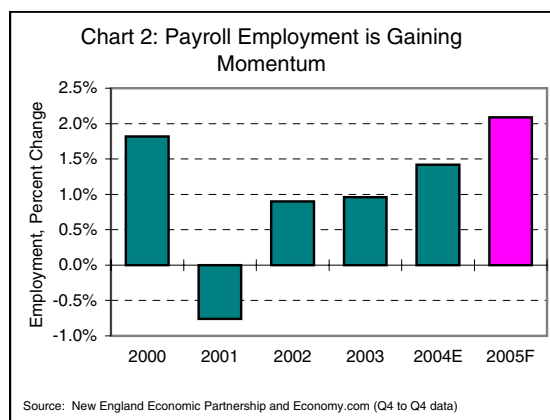
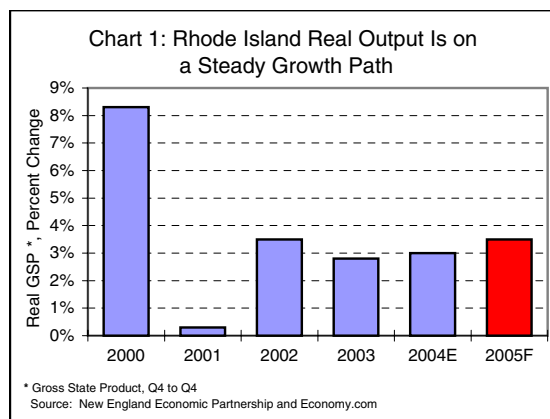
## Rhode Island

National real gross domestic product (GDP) is forecasted to moderate in 2005.

- National real GDP during 2004 is currently forecasted by Economy.com to grow about 4.0 percent when measured from fourth quarter 2003 to fourth quarter 2004. This would be slightly below the 4.4 percent growth posted for 2003, but well ahead of the 2.3 percent growth in 2002 and the 0.2 percent growth experienced during the recession year of 2001.
- Consensus forecasts project 2005 real GDP growth to moderate to about 3.0 percent when measured on this basis

Rhode Island, along with other states in New England, benefited from growth in the national economy during 2004. The 2005 forecast expects growth to continue.

- Growth in gross state product for Rhode Island is estimated to continue at or near the 3.0 percent pace achieved since 2002 according to a regional growth forecast prepared by the New England Economic Partnership (See Chart 1).
- Payroll employment growth will likely continue accelerating through next year (See Chart 2). Employment growth has lagged the turnaround in output, as it generally does, because businesses are reluctant to hire during the initial phases of an economic recovery. Both labor demand and the rate of employment growth should improve.
- Due to large capital investment requirements of many key industries in New England, the lag in job growth has been more pronounced here. In addition, slow labor force growth and relatively high costs of doing business have also contributed to a more muted employment growth relative to the national average.
- Rhode Island's economy, however, has been less capital goods and high-tech centered than most of the region. As a result, the recession was mild and the recovery comparatively quick. Employment gains continue to be led by education and health care, but also by tech-sensitive sectors such as professional and business services.



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**Better economic times in Rhode Island imply fewer bankruptcies.**

- The resilience of employment during the recession and gains afterward have resulted in a major reduction in bankruptcies during the four quarters ending in second quarter 2004 (See Chart 3). Further reductions may well occur during 2005 as the Rhode Island economy is expected to expand.

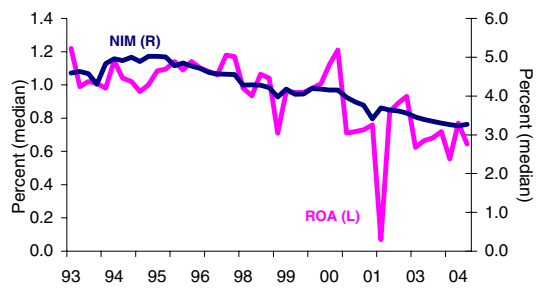
**Rhode Island's small institutions report a decline in profits as net interest margins (NIMs) remain pressured from high mortgage loan concentrations.**

- Rhode Island's small insured institutions (assets less than \$1 billion) reported a median return on assets (ROA) of 0.65 percent as of September 30, 2004. ROA has been on a downward trend in the state as asset yields typically associated with high concentrations of mortgage loans continue to squeeze the NIM (See Chart 4).
- Residential mortgage loans account for 68 percent of total loans in Rhode Island's small institutions compared to 32 percent of total loans in the small institutions nationwide. As interest rates dropped in the last several years, borrowers refinanced into lower fixed-rate loans. Prepayment speeds on these lower-yielding loans will likely slow as interest rates rise and will likely pressure profitability for many small Rhode Island institutions as funding costs rise.

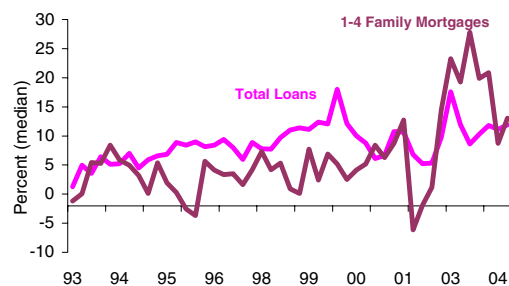
**Loan growth is strong in Rhode Island as insured institutions expand single family residential loan portfolios.**

- Rhode Island's insured institutions continued to experience strong loan growth through the third quarter of 2004. The median growth rate for total loans was 12 percent as of September 30, 2004. In the low interest rate environment, single family residential mortgage loans boosted loan growth in the state with a median growth rate of just over 13 percent (See Chart 5). Construction loan growth continued to be robust with a median growth rate of 25 percent as of September 30, 2004.
- Commercial and industrial loan growth slowed in the third quarter to a median growth rate of 5.5 percent after robust growth since 2002.

**Chart 4: Sustained Margin Compression Continues to Affect Small Rhode Island Institution Profitability**



**Chart 5: Insured Institutions in Rhode Island Post Strong Loan Growth**



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### Rhode Island at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	15	15	14	13	13
Total Assets (in thousands)	236,947,137	210,916,072	196,734,251	208,859,988	179,227,835
New Institutions (# < 3 years)	3	3	3	1	2
New Institutions (# < 9 years)	6	6	5	3	3
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	8.91	10.96	9.83	8.30	7.86
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.81%	0.78%	0.77%	0.98%	1.18%
Past-Due and Nonaccrual >= 5%	1	1	0	1	2
ALLL/Total Loans (median %)	1.18%	1.25%	1.15%	1.35%	1.31%
ALLL/Noncurrent Loans (median multiple)	2.76	2.93	3.21	2.56	2.65
Net Loan Losses/Loans (aggregate)	0.69%	1.69%	1.94%	1.06%	1.13%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	2	3	1	0	0
Percent Unprofitable	13.33%	20.00%	7.14%	0.00%	0.00%
Return on Assets (median %)	0.81	1.02	1.11	0.90	1.18
25th Percentile	0.32	0.67	0.68	0.73	0.84
Net Interest Margin (median %)	3.29%	3.36%	3.71%	3.89%	4.15%
Yield on Earning Assets (median)	5.19%	5.54%	6.37%	7.72%	7.86%
Cost of Funding Earning Assets (median)	1.76%	1.98%	2.56%	3.95%	4.10%
Provisions to Avg. Assets (median)	0.07%	0.09%	0.13%	0.06%	0.14%
Noninterest Income to Avg. Assets (median)	1.26%	1.48%	1.50%	1.13%	1.27%
Overhead to Avg. Assets (median)	3.59%	3.47%	3.44%	3.32%	3.39%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	82.22%	87.80%	89.08%	91.02%	86.24%
Loans to Assets (median %)	63.24%	61.41%	64.84%	65.88%	66.39%
Brokered Deposits (# of Institutions)	2	3	3	3	3
Bro. Deps./Assets (median for above inst.)	3.77%	0.37%	0.22%	0.63%	0.81%
Noncore Funding to Assets (median)	19.71%	20.33%	21.03%	25.85%	28.27%
Core Funding to Assets (median)	59.19%	61.96%	61.01%	62.39%	61.18%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	4	4	3	4	4
National	4	4	4	3	3
State Member	0	0	0	0	0
S&L	2	2	2	1	1
Savings Bank	3	3	3	3	3
Stock and Mutual SB	2	2	2	2	2
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Providence-Fall River-Warwick RI-MA	10	233,425,868	66.67%	98.51%	
No MSA	3	1,169,527	20.00%	0.49%	
New London-Norwich CT-RI	2	2,351,742	13.33%	0.99%	